

February 15, 2005



# Financial Management

## Existence of U.S. Army Corps of Engineers Buildings and Other Structures (D-2005-035)

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### **Acronyms**

CEFMS	Corps of Engineers Financial Management System
COEMIS	Corps of Engineers Management Information System
DoD FMR	Department of Defense Financial Management Regulation
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
DoD IG	Department of Defense Inspector General
PP&E	Property, Plant, and Equipment
REMIS	Real Estate Management Information System
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
USACE	U.S. Army Corps of Engineers



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February 15, 2005

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures (Report No. D-2005-035)

We are providing this report for your information and use. We performed the examination in response to a request from the U.S. Army Corps of Engineers. This is the first in a series of reports related to management assertions by the U.S. Army Corps of Engineers on Civil Works buildings and other structures. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Barbara A. Sauls at (703) 325-5782 (DSN 221-5782) or Mr. Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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## **Department of Defense Office of the Inspector General**

**Report No. D-2005-035**

(Project No. D2004FI-0037)

**February 15, 2005**

### **Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures**

#### **Executive Summary**

**Who Should Read This Report and Why?** U.S. Army Corps of Engineers and Department of Defense personnel responsible for the financial reporting and accountability of buildings and other structures should read this report. The report discusses the accuracy of assertions about the existence of buildings and other structures and the related transactions reported in the FY 2003 U.S. Army Corps of Engineers, Civil Works, Financial Statements.

**Background.** General Property, Plant, and Equipment was the largest category of assets reported on the U.S. Army Corps of Engineers, Civil Works, Financial Statements for the fiscal years ending September 30, 2004 and 2003. Buildings and other structures comprised \$18.3 billion of the \$30.9 billion reported as General Property, Plant, and Equipment in FY 2003, and \$16.1 billion of the \$28.4 billion reported as General Property, Plant, and Equipment in FY 2004. Buildings and other structures include all buildings, structures, and other facilities affixed to U.S. Army Corps of Engineers land in the continental United States, Alaska, and Hawaii. Assertions are representations by management that are embodied in the financial statements. This is the first in a series of reports related to management assertions by U.S. Army Corps of Engineers on Civil Works buildings and other structures.

We performed this examination to verify the value for buildings and other structures on the FY 2003 U.S. Army Corps of Engineers, Civil Works, Financial Statements. The U.S. Army Corps of Engineers agreed that we would perform the procedures to support the establishment of beginning balances for the audit of the Principal U.S. Army Corps of Engineers, Civil Works, Financial Statements for the Fiscal Years Ending September 30, 2004 and 2003.

**Results.** U.S. Army Corps of Engineers misreported the existence of 164 of 1,211 sampled assets, with a net book value of \$594.9 million as of June 30, 2003, as buildings and other structures on its Civil Works Balance Sheet. U.S. Army Corps of Engineers also misreported 357 bank stabilization assets, with net book value of \$1.3 billion, as structures. The misreported structures did not meet the accounting standards contained in the Statement of Federal Financial Accounting Standards No. 6 and the DoD Financial Management Regulation. As a result, the assertions about the physical existence of U.S. Army Corps of Engineers buildings and other structures were inaccurate. Until the inaccuracies are corrected, the FY 2004 Civil Works financial statements are materially misstated, and U.S. Army Corps of Engineers is precluded from gaining a favorable audit opinion. U.S. Army Corps of Engineers should take actions to

correct errors identified in this report and direct a one-time inventory of all buildings and other structures to correct errors at field sites not reviewed. (See the Finding section of the report for the detailed recommendations.)

**Management Comments and Audit Response.** The Commander of the U.S. Army Corps of Engineers concurred with the finding and recommendations and stated that an information paper addressing corrective actions to the buildings and other structures accounts had been developed. He also stated that the land used for wildlife was acquired with the intent to construct other General Property, Plant, and Equipment assets. Therefore, the U.S. Army Corps of Engineers considered the land as common grounds to the other General Property, Plant, and Equipment assets and would transfer the land assets to the land improvements account instead of reporting them as stewardship land. We reconsidered this accounting treatment and determined it to be an acceptable approach. Consequently, we updated the finding and recommendation. (See the Finding section for a discussion of management comments and the Management Comments section of the report for a complete text of the comments.)

**Management Actions.** During this independent examination, U.S. Army Corps of Engineers personnel corrected 11 of the 164 errors in the buildings and other structures accounts. U.S. Army Corps of Engineers also reclassified bank stabilization assets at the New Orleans, Memphis, and Vicksburg districts which accounted for the majority of the \$2.2 billion reduction in net book value on the FY 2004 Civil Works Balance Sheet. In addition, the U.S. Army Corps of Engineers issued Engineer Circular 405-1-2 in March 2004 and additional guidance related to bank stabilization assets. (See the Finding section for a complete discussion of the management actions.)

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## Background

We performed an examination attestation to establish beginning balances for the audit of the Principal U.S. Army Corps of Engineers (USACE), Civil Works, Financial Statements for the Fiscal Years Ending September 30, 2004 and 2003. USACE reports General Property, Plant, and Equipment (PP&E) as an asset line item on the Civil Works Balance Sheet. For FY 2003, the net book value of PP&E was \$30.9 billion. Buildings and other structures<sup>1</sup> comprised \$18.3 billion of the total PP&E. For FY 2004, the net book value of PP&E was \$28.4 billion. Buildings and other structures comprised \$16.1 billion of the total PP&E. The net book value represents the difference between the historical acquisition (book) cost and the associated accumulated depreciation of the assets. As of September 30, 2003, USACE had about 40,000 structures located at about 1,273 field sites in the continental United States, Alaska, and Hawaii.

USACE provided the universe of structures contained in the Corps of Engineers Financial Management System (CEFMS) as of June 30, 2003, that supported the amounts reported on the Balance Sheet. From this universe, those structures identifiable as bank stabilization assets were removed, based on the recommendations in the Department of Defense Inspector General (DoD IG) Report No. D-2004-017, "Reliability of Construction-In-Progress in the U.S. Army Corps of Engineers, Civil Works, Financial Statements," November 7, 2003. Structures with a zero dollar book value were also removed (because they no longer had an impact on the financial statements) and were tested as part of the completeness assertion. The remaining universe of structures was statistically sampled to test USACE assertions about existence or occurrence, rights and obligations, valuation or allocation, and presentation and disclosure. To test the completeness assertion, we selected structures that were observed at the visited field sites and determined whether they were accurately reported in CEFMS. We also tested a judgmental sample of zero dollar book value transactions to ensure that they were reported properly. This report relates to the USACE management assertion about the existence of Civil Works structures.

## Objective

The objective of this attestation was to verify the buildings and other structures portion of the General PP&E line item and related note disclosure to the FY 2003 Balance Sheet. We performed the procedures in accordance with generally accepted government accounting standards incorporating financial audit and attestation standards. See Appendix A for a discussion of the scope and methodology, Appendix B for prior coverage related to the objective, and Appendix C for a glossary of terms used throughout the report.

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<sup>1</sup> In this report, the term "structures" includes buildings and other structures unless otherwise specified.



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## USACE Assertions on the Existence of Buildings and Other Structures

USACE misreported the existence of 164 of 1,211 sampled assets, with net book value of \$594.9 million as of June 30, 2003, as structures on its Civil Works Balance Sheet. USACE also misreported 357 bank stabilization assets, with a net book value of \$1.3 billion, as structures. The misreported items did not meet accounting standards. USACE personnel did not follow established procedures to determine whether:

- a tangible structure existed in a condition consistent with the supporting documentation,
- property identification codes were properly classified,
- impairments to structures were identified and retirement transactions were recorded in CEFMS in the period that the impairment occurred, and
- structures that no longer provided an operational service to USACE were retired from CEFMS.

Physical inventories conducted by district personnel neither identified nor reconciled structures that failed the existence assertion. As a result, the assertions about the physical existence of USACE buildings and other structures were inaccurate. Until the inaccuracies are corrected, the FY 2004 Civil Works financial statements are materially misstated, and USACE is precluded from gaining a favorable audit opinion.

### Criteria

**Generally Accepted Accounting Principles (GAAP).** GAAP requires that expenses be recorded in the same accounting period as the revenue they helped to earn. GAAP further states that structures should be recorded at book cost, including all costs necessary to bring the asset to its location in working condition. That cost, less salvage value, should be depreciated over the estimated useful life of the structure. Structures approved for disposal should be retired in the general ledger accounts and reported at the lesser of their book value or fair market value, less costs to sell. GAAP describes assertions as representations by management that are embodied in financial statement components. They can be either explicit or implicit and can be classified according to the following broad categories: existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure. Assertions about existence or occurrence address whether the assets or liabilities of the entity exist on a given date and whether recorded transactions occurred during a given period.

**Statement of Federal Financial Accounting Standards (SFFAS).** SFFAS No. 6, "Accounting for Property, Plant, and Equipment," June 1996, contains

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accounting standards for federally owned PP&E. General PP&E is defined as tangible assets that:

- have an estimated useful life of 2 or more years,
- are not intended for sale in the ordinary course of business, and
- are intended to be used or available for use by the entity.

General PP&E should be removed from the accounting records along with the associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service, it no longer provides a service to the operations of the entity. SFFAS No. 8, "Supplementary Stewardship Reporting," October 1990, sets guidelines in accounting for Stewardship PP&E, categorized as either heritage assets, Federal mission PP&E, or stewardship land. Heritage assets are PP&E of natural, cultural, educational, or artistic significance. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets must be expensed in the period incurred when determining the net cost of operations. Stewardship land is land not acquired for, or in connection with, items of General PP&E. SFFAS No. 6 deems all stewardship information as required supplemental stewardship information (RSSI).

**Department of Defense Financial Management Regulation (DoD FMR).** The DoD FMR, volume 4, "Accounting Policy and Procedures," chapter 6, "Property, Plant, and Equipment," August 2000, contains the DoD accounting standards for PP&E. General PP&E consists of tangible assets, as defined in SFFAS No. 6, including assets acquired through capital leases, property owned by the reporting entity (even though it may be in the possession of others), land (other than stewardship land), and land rights. Real property and stewardship land assets must be inventoried at least every 5 years, and the results of the physical inventories must be reconciled to the property accountability and financial records. Adjustments may be required for any unrecorded physical changes such as removals, additions, or modifications of the PP&E that were not previously or properly recorded.

## **FY 2003 Financial Statements Assertions**

USACE management is responsible for the fair presentation of its Civil Works financial statements and RSSI. They are also responsible for establishing and maintaining a system of internal control. The USACE "Management Representation Letter for the Civil Works FY 2003 Financial Statements," December 3, 2003, asserted that:

- representations were presented fairly in accordance with GAAP;
- no material transactions were improperly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements;
- long-lived assets (structures) and certain identifiable intangibles were reviewed and a determination was made that whenever events or

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changes in circumstances caused impairments, the reported amounts of the assets were accounted for, appropriately recorded, and adjusted; and

- provisions were made to reduce excess or obsolete inventories to their estimated net realizable value.

The letter also stated that in FY 2003 a material weakness existed in control over additions and deletions to structures, and that corrective actions were ongoing.

## Sampling Methodology

**Sample Selection.** We performed a statistical sample to determine the accuracy of the financial data reported on the structures portion of the General PP&E line item on the FY 2003 USACE, Civil Works, Financial Statements. USACE provided a population from CEFMS that supported the amount reported on the Civil Works Balance Sheet as of June 30, 2003. A distinct property identification code represented each structure. We tested a statistical sample of 1,211 property identification codes at 43 project sites for accuracy of the assertions made on the financial data. We will report projections related to potential misstatements in the structures accounts in a future report on the valuation of the USACE structures.

**Existence Testing Conducted.** To determine the accuracy of the financial data, we tested each sample item for the existence assertion. Based on physical observation and available documentation, we conducted tests to determine whether structures:

- physically existed as of June 30, 2003 in a condition consistent with the supporting documentation,
- were properly classified in CEFMS as either a building (property category code 05) or other structure (property category code 10),
- experienced any impairments that should be recognized, and
- were being used for their intended or another legitimate purpose.

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## Existence of Structures

Of the 1,211 items sampled, 164 sample items with a book cost of \$888.1 million and a net book value of \$594.9 million as of June 30, 2003, failed the existence assertion. A structure failed the existence assertion if it failed one or more of the existence tests. These errors caused the FY 2004 and FY 2003 financial statements to be overstated and resulted in a material misstatement of the General PP&E portion of the FY 2004 USACE, Civil Works, Balance Sheet. The following table shows the number and book value of property identification codes that failed, by type of existence test conducted.

<b>Existence Test Failures as of June 30, 2003</b>		
<u>Existence Test</u>	<u>Number of Errors</u>	<u>Book Value (millions)</u>
Physical Existence	65	\$267.5
Classification	71	\$324.7
Impairment	12	\$ 0.4
Usefulness	16	\$ 2.3
<b>Total</b>	<b>164</b>	<b>\$594.9</b>

Appendix D contains a complete list of property identification codes that failed the existence testing. We calculated the dollar amount of misstatements in book cost and book value as of June 30, 2003. These amounts will be used in the subsequent report on the valuation of structures to project the potential misstatement on the financial statements as of June 30, 2003, and the impact on the FY 2004 ending balances.

**Physical Existence.** Sixty-five property identification codes, with a net book value of \$267.5 million, did not represent structures that physically existed as of June 30, 2003. At 16 of the 43 field sites, we identified 33 structures that had existed at one time but no longer existed as of June 30, 2003. We also identified 32 property identification codes for structures that either never existed or represented unassigned costs that needed to be either distributed to existing structures or expensed.

**Unrecorded Disposal Actions.** Although USACE had procedures to retire and dispose of structures that no longer existed, field site and district personnel did not follow the procedures on 33 of the sampled structures. See Appendix E for a chart of the USACE retirement cycle. Field site personnel either did not request district approval to dispose of a structure, or did not timely inform their district office that retirement and disposal actions had been taken. In addition, although district real estate personnel sometimes conducted inventories at these field sites, they did not properly identify structures that no longer physically existed or take actions to properly retire the structures from CEFMS. The districts' failure to remove property identification codes for nonexistent structures from CEFMS resulted in the continued accumulation of depreciation expense and the misreporting of the value of structures in their financial records. The following are examples of structures not disposed of in CEFMS as of June 30, 2003.

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- Property identification code RR-29065 was listed in CEFMS as a playground structure with a book cost of \$121,070.14 at Ray Roberts Lake, Texas. On December 10, 1999, the Texas Parks and Wildlife Department requested approval to remove and replace this playground because it no longer met safety standards. The Department was subsequently granted approval to remove the asset on February 16, 2000. The asset was removed from the property but the property identification code had not been retired and disposed of in CEFMS.
  - Property identification code BB151-9116 was listed in CEFMS as an office building with a book cost of \$650,522. A flood had severely damaged the office building in 1995, and USACE demolished the building in 1997. Although real estate personnel had done several inventories, the property identification code for the nonexistent asset was never identified and retired and disposed of in CEFMS.
  - Property identification codes COCHIT-7045, COCHIT-7046, and COCHIT-7047 had been removed from the Cochiti Lake, New Mexico. According to a “Finding of Fact” memorandum on June 20, 2001, the real estate division chief recommended that these assets be removed from service because their condition had deteriorated. On June 21, 2001, this recommendation was approved and a moving company was hired to remove the three residences, in their entirety, between November 2001 and February 2002. As of June 30, 2003, the assets had not been retired or disposed of in CEFMS.
  - St. Louis District, St. Louis, Missouri, had established two property identification codes (BB151-6870 and BB151-6899) with a combined book cost of \$285 million as a coffer dam at the Melvin Price Lock and Dam, Alton, Illinois. The lockmaster stated that the coffer dam had once existed around the current lock and dam structures but USACE tore down the coffer dam when the new lock and dam structures were placed in service. The district had taken no actions to retire and dispose of these assets in CEFMS.

**Structures Duplicated in CEFMS or Never Constructed.** During the process of converting from the Corps of Engineers Management Information System (COEMIS) to CEFMS, 10 USACE districts erroneously placed in service 22 sampled structures that either were duplicates of previously established structures or had never been constructed. See Appendix F for a description of the conversion process. In nine cases, a structure had already been created in CEFMS, and the new property identification code created a duplicate asset. For example, property identification code L&D02-14892 was identified as the dikes located in Pineville, Louisiana, and was placed in service subsequent to the conversion. However, this structure had been previously placed in service during the conversion process. The Vicksburg District, Vicksburg, Mississippi, recognized this error and corrected it on August 15, 2003.

In 13 other cases, property identification codes were placed in service for structures that were never constructed. For example, property identification codes

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RR-29056, RR-29108, and RR-29114 were structures listed on the master plan for Ray Roberts Lake, but the structures were never constructed. When personnel at the Fort Worth District, Fort Worth, Texas, developed their structure list to use for conversion, they used the master plan and distributed the COEMIS feature costs of a recreational park to assets on the plan even though some of the assets on the plan had never actually been constructed. This resulted in the misallocation of costs to each individual structure under feature code 14, “Recreational Facilities,” during the conversion process. The district needs to delete these nonexistent assets from its spreadsheet and reallocate the conversion costs to the assets that actually existed at the time of conversion.

**Unassigned Costs Established as Structures.** In 10 instances, USACE districts erroneously capitalized excavation, labor, landscaping, maintenance, and repair costs as separate property identification codes. These costs should have been expensed unless they were part of the costs needed to bring a tangible asset into service and were assigned to that asset. The following are examples of erroneously capitalized costs.

- Property identification codes L&D01-11482 and L&D01-11498 were hired labor that was not assigned to a specific tangible asset.
- Property identification code RBR-18640 was repair costs to a road in Elbert County, Georgia.
- Property identification code TTDIVI-27800 was excavation costs at the Tennessee-Tombigbee Divide Cut, Alabama, which did not create a tangible asset.

**Conclusion.** USACE personnel must remove the 65 structures that did not physically exist from CEFMS. A physical inventory is required to ensure that a tangible asset exists for each property identification code that is placed in service in CEFMS. Districts must determine whether they allocated costs to nonexistent structures during the conversion from COEMIS to CEFMS. If they did, they must make required adjustments.

**Classification.** USACE personnel at 16 districts had misclassified 71 property identification codes, with a net book value of \$325 million, as structures. These sample items should have been assigned to other general ledger accounts either as construction in progress, equipment, land and improvements to land, or stewardship assets. Districts misclassified assets because they did not comply with guidance for converting assets from COEMIS to CEFMS<sup>2</sup> or because other USACE guidance did not adequately define how to classify specific types of assets. Misclassification of assets resulted in the misstatement of RSSI and one or more lines on the FY 2003 Civil Works Balance Sheet. In addition, districts did not properly differentiate between buildings and other structures.

**Construction in Progress.** USACE districts placed in service six structures at Libby Dam, Libby, Montana, and two structures at Lower Monumental Lock and Dam, Starbuck, Washington, that were not fully constructed. According to the DoD FMR, volume 4, chapter 6, the cost to construct an asset must be recorded as construction in progress until the asset is

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<sup>2</sup> USACE Real Estate Directive Number 13.

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completed and available for use. Placing the structures in service before completion caused depreciation to begin early, and the book value of General PP&E to be understated by \$1.4 million.

**Equipment.** USACE districts misclassified five equipment assets as structures. The equipment assets were four portable sliding boat ramps at Harry S. Truman Lake, Warsaw, Missouri, and boundary monuments marking the reservoir boundaries at Lake Sharpe, South Dakota. These items should have been classified as personal property because they are portable and easily moved.

**Land.** USACE districts incorrectly classified each of 37 land and land improvement assets as either a building or other structure. These 37 structures involved the clearing or improvement of land assets in preparation for building canals, dams, locks, parks, and reservoirs or were improvements to the land for the benefit of wildlife. Because land does not depreciate, misclassifying land as structures causes the PP&E line item to be understated by the amount of accumulated depreciation. The major category of misclassified land assets was 22 reservoirs, with a book cost of \$105.9 million, which were erroneously capitalized as structures. Cost data entered into CEFMS under the property identification codes for these structures were associated with the preparation of the land for the creation of the reservoirs. These costs were classified as feature code 03, "Reservoirs," but should have been classified as part of land cost in accordance with USACE Real Estate Directive Number 13. Because these assets had depreciated, the General PP&E line was understated by \$17.9 million. Additional examples of land and land improvements classified as structures follow.

- Property identification codes FAL-15886, FAL-18493, FAL-18749, and FAL-19328 were costs incurred in clearing the land in preparation of the recreational parks at Falls Lake, North Carolina.
- Property identification codes CO-32073, TTWILD-27604, LOSTC-8763, and MILLC-3835 were costs incurred to support wildlife at the USACE-owned sites.

These items should be treated either as improvements to land and not depreciated or as part of the cost to bring a tangible asset into service, and included in the book cost of that asset.

**Stewardship.** USACE districts incorrectly classified 21 stewardship assets as structures. The inclusion of heritage assets and stewardship land within the buildings and other structures accounts caused the General PP&E line to be overstated by \$202.2 million because costs associated with stewardship assets should have been expensed in the period the costs were incurred. The following are examples of incorrectly classified assets.

- Property identification codes RBR-17287 and RBR-17291 were an historical barn and lean-to at the Richard B. Russell Dam, Georgia, that were listed in COEMIS as feature code 18 (Historical Resource Preservation). Because of their historical significance, the structures

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should have been reported as heritage assets and their costs expensed within the period incurred.

- Seventeen structures were bank stabilization costs associated with maintaining rivers, and should have been expensed and reported as RSSI, not capitalized as structures.

**Classification of Buildings and Other Structures.** Districts did not properly differentiate between buildings and other structures. Engineer Circular 405-1-2, "Project Inventory Management, Accountability, and Documentation," March 1, 2004, defines a building as a facility constructed on a piece of land, covered by a roof, enclosed by walls, and usually with flooring. According to the DoD FMR, volume 4, chapter 6, the total useful life of a building is 40 years while the useful life of other structures and utilities is 20 years. The districts misclassified 68 out of 1,211 sample structures. Misclassification of the structures caused the establishment of the incorrect useful life, a miscalculation of depreciation, and a misstatement of the book value on the Balance Sheet.

**Conclusion.** USACE personnel must take steps to reclassify and transfer the 71 misclassified structures to the appropriate general ledger accounts. To ensure that records show the proper classification of PP&E assets, USACE policies and procedures must clearly identify the classification criteria for each type of General PP&E and stewardship asset. In addition, real estate and finance and accounting personnel must be adequately trained to identify the proper classification.

**Impairments.** District personnel did not identify impairments valued at about \$400,000 on 12 structures. An asset should be considered impaired when the book value of a long-lived asset exceeds its fair value and is not recoverable. When the book value of a structure is not recoverable, an impairment loss should be recorded by deducting the amount of impairment from the structure's book cost and book value in CEFMS. Failure to record impairments causes an overstatement in the financial statements. Examples of structures with unrecognized impairments were:

- two parking lots at Canyon Lake, Texas, that were unusable and fully covered by grass and weeds;
- a road at Cochiti Lake, New Mexico, that was completely submerged under the lake; and
- an overlook structure at Hugo Lake, Oklahoma, with damage to three of the six wooden support beams.

USACE personnel must take steps to identify the extent of the impairment and retire and dispose of the impairment amount in CEFMS for each of the



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12 structures. Field site and real estate personnel must be trained to identify whether an impairment to a structure exists and what actions must be taken to report and record an impairment loss.

**Usefulness.** District personnel did not identify 16 structures, valued at \$2.3 million, that existed but were no longer used for a legitimate purpose and should have been retired from service. SFFAS No. 6 states that if the structure no longer provides a service to the operation of the entity, it should be removed from the financial records. USACE continued to report structures in service that were abandoned or located in closed locations. These structures were not used because they were unavailable for use, out-of-date, or no longer cost-efficient to maintain. The following are examples of structures that no longer served a useful purpose.

- A double privy at the Thibault Point recreation, Missouri, was uprooted due to flood damage and used as scrap to repair other structures.
- A shelter used to house equipment at Grant Pass, Oregon, was not used because a different building served that purpose.
- Structures located at Salt Creek Park, Oklahoma, were unavailable for use because the park had been closed for 2 years with no plans of reopening.
- Structures at Gilham Lake, Arkansas, were not used because they were out-of-date. The park had switched to public water and sewage, so the sewage effluent system and the water treatment facility were no longer needed.
- An entrance station at the Guyandotte Camp, Alabama, was closed because it was not cost-effective to operate. The entrance station was locked and had been replaced with lock boxes to collect campground fees. It was more cost-effective to use the lock boxes than to pay a contractor to man the station.

USACE personnel must take steps to retire the 16 structures from CEFMS that were no longer being used for a legitimate purpose.

## **Previously Identified Control Issues**

DoD IG Report No. D-2004-063, "Controls Over U.S. Army Corps of Engineers Buildings and Other Structures," March 26, 2004, identified that sufficient controls were not in place to ensure that USACE buildings and other structures were properly added to and deleted from CEFMS. We recommended that USACE conduct proper inventories and update Engineer Regulation 405-1-12, "Real Estate Handbook," to ensure that USACE establishes and enforces appropriate procedures for recording structures in CEFMS. We also recommended that USACE train field site personnel on the new USACE policies and procedures.

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## USACE Corrective Actions

On March 1, 2004, in response to recommendations in DoD IG Report No. D-2004-063, USACE headquarters issued Engineer Circular 405-1-2, which provides updated guidance on inventory management, accountability, and documentation of structures. The circular is valid for 1 year and will be updated as needed. The circular will become chapter 16 to Engineer Regulation 405-1-12. USACE should review the existence issues we identified and ensure that the final regulation incorporates guidance to eliminate the existence issues. If USACE properly implements, trains, and enforces its own guidance, the existence issues identified in our report should be remedied and prevented in the future.

Based on a recommendation contained in DoD IG Report No. D-2004-017, USACE implemented Information Paper No. 2, "Proper Classification of Project Costs as either Construction-in-Progress (CIP) or Expense." This paper stated that based on SFFAS No. 8, chapter 3, "Federal Mission Property, Plant, and Equipment," USACE determined that the proper treatment of bank stabilization projects was to report them in RSSI. Revetments, riprap, and dikes are examples of these types of projects. USACE also directed the removal of bank stabilization costs from the buildings and other structures accounts.<sup>3</sup> USACE personnel were instructed to fully depreciate, retire, and dispose of the bank stabilization assets. The reclassification of revetments at the New Orleans, Memphis, and Vicksburg Districts accounted for a majority of the \$2.2 billion reduction in net book value of buildings and other structures reported in Note 10 to the FY 2004 Civil Works financial statements.

During the course of our review, USACE took actions to correct some of the 164 sample errors we identified. As of May 21, 2004, the Albuquerque District, Albuquerque, New Mexico; Kansas City District, Kansas City, Missouri; Little Rock District, Little Rock, Arkansas; Savannah District, Savannah, Georgia; and Vicksburg District, Vicksburg, Mississippi; personnel corrected 11 of 164 sample items identified in error. However, only two of the corrected items, with a net book value of \$1.0 million, were corrected prior to September 30, 2003. Therefore, the amount reported on the FY 2003 Civil Works financial statements in Note 10 for buildings and other structures was misstated by a net book value of \$1.9 billion. In July 2004, USACE issued Information Paper No. 10, "Buildings and Other Structures," that addresses corrective actions districts should implement to resolve the issues identified in this report. These corrective actions represent positive steps toward achieving an accurate structure balance in CEFMS. We will assess the implementation of these actions during a follow-up attestation in FY 2005.

## Summary

USACE assertions on the physical existence of structures reported in CEFMS were inaccurate. The inaccuracies will result in a material misstatement of the

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<sup>3</sup> Prior to selecting a sample, we had removed 357 property identification codes identified as bank stabilization structures, with a net book value of \$1.3 billion, from our universe. These property identification codes were misreported.

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FY 2004 Civil Works financial statements, unless corrective actions are taken. Recording structures in CEFMS that no longer existed, were impaired, or no longer served a useful purpose overstated the General PP&E line of the Balance Sheet and caused the financial statements to not be presented fairly in accordance with GAAP. Misclassified structures affect the total assets, net position, and expenses reported on the USACE financial statements. The problems with the 164 sampled structures and 357 misclassified bank stabilization assets resulted in the net book value of the buildings and other structures accounts being overstated by \$1.9 billion. Similar existence problems may affect property identification codes at projects that were not sampled, resulting in a greater misstatement. Therefore, USACE must correct the 164 identified errors, expense bank stabilization costs, and perform a one-time physical inventory to review its remaining structures for similar types of existence errors. USACE must continue to review and update Engineer Regulation 405-1-12 to prevent future errors. Once updated policies are implemented, USACE must provide and document training of district personnel and ensure that all districts consistently implement the new policies and procedures to maintain accurate structure balances in CEFMS.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendation.** As a result of finalizing the field work, we revised the total number and categories of existence errors in the finding and Recommendation 1 to adjust for additional errors and correct previously misreported errors. The revision caused the total number of errors to increase from 161 to 164 sampled structures with a net book value misstatement of \$594.9 million. We also revised Appendix D to reflect the following changes.

- We added four sampled structures (property identification codes ARLD13-48781, LOMO-6842, ORLRCB-23584, and IHRBR-4301) as existence errors.
- We removed one sampled structure (property identification code MORIVR-37015) because it was not an existence failure.
- We recategorized six sampled structures. Property identification codes LBDLKO-16353 and LBDLKO-16357 were moved from the “classification” to the “physical existence” error category, and property identification codes CO-32073, LOSTC-8763, MILLC-3835, and TTWILD-27604 were moved from the “stewardship assets” to the “land assets” error category.

**We recommend that the Chief of Engineers, U.S. Army Corps of Engineers:**

**1. Take immediate actions to resolve the 164 existence errors identified in Appendix D, including a reassessment of the conversion process at sites that assigned costs to nonexistent assets at the time of conversion to the Corps of Engineers Financial Management System.**

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**Management Comments.** The Commander of USACE concurred and stated that the actions taken in response to Information Paper No. 10 will correct the existence issues. However, USACE did not agree that wildlife improvements should be reclassified as stewardship land. Instead, USACE stated that these land improvements will be transferred to general ledger account code 1712, “land improvements,” because the land was acquired for, or in connection with, General PP&E assets.

**Audit Response.** Management comments are responsive. We agree that the treatment of wildlife improvements as land improvements is in accordance with generally accepted accounting principles. We restated the discussion of these assets in the finding and recategorized the error.

**2. Take actions to expense all bank stabilization assets from the buildings and other structures accounts within the Corps of Engineers Financial Management System.**

**Management Comments.** The Commander of USACE concurred and stated that the actions contained in Information Paper No. 10 will correct the existence issues.

**3. Direct and document a one-time physical inventory of all property identification codes classified as buildings and other structures. Specifically, ensure that:**

**a. A tangible asset exists in a condition consistent with supporting documentation and is properly classified to the correct general ledger accounts (for example, building, structure, land, equipment).**

**b. Property identification codes determined to be physically impaired or no longer in use are retired from the Corps of Engineers Financial Management System.**

**Management Comments.** The Commander of USACE concurred and stated that Information Paper No. 10 directed a one-time inventory to correct these issues.

**4. Determine whether the new Engineer Circular 405-1-2, provides detailed policy guidance to eliminate the existence errors identified in this report. If not, incorporate changes to the final Engineer Regulation 405-1-12, chapter 16. Once final policies are implemented, provide training to district personnel and ensure that the policies are implemented consistently by all U.S. Army Corps of Engineer districts.**

**Management Comments.** The Commander of USACE concurred and stated that USACE management will review Engineer Circular 405-1-2 to ensure the policy provides guidance to eliminate the existence errors identified. Changes made to Engineer Circular 405-1-2 will be incorporated into Engineer Regulation 405-1-12 and the Finance and Accounting System Training.

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## Appendix A. Scope and Methodology

We selected a statistical sample from a universe of 32,571 structures, valued at \$16.7 billion, reported as buildings and other structures on the third quarter, FY 2003 Balance Sheet. Each structure was identified using a distinct property identification code. We used the sample to evaluate management assertions for existence or occurrence, rights and obligations, valuation or allocation, and presentation and disclosure. In this report, we address existence-related issues found during the sample. Projections related to any misstatement of the buildings and other structures accounts will be addressed in a future report. We reviewed a two-stage probability-proportional-to-size sample of USACE properties which at the second stage involved 1,211 of the 32,571 property identification codes. The probability-proportional-to-size sampling technique uses the dollar value of the asset as a selection criterion in the first stage, with higher probability for selecting the larger dollar value projects. The 1,211 sample items were located at 43 field sites within 18 USACE districts.<sup>1</sup> We performed this examination from October 2003 through July 2004 in accordance with generally accepted government auditing standards.

We obtained from USACE the 39,852 individual property identification codes<sup>2</sup> that comprised the trial balance totals for general ledger account codes 1730 (buildings) and 1740 (other structures) as of June 30, 2003. We determined that the property identification codes represented the amount reported in the trial balance as of June 30, 2003. We removed 357 identified revetment structures, valued at \$1.3 billion, from our universe based on a recommendation contained in DoD IG Report No. D-2004-017, that these items should be expensed. We also removed 6,924 structures with zero reported book value from the universe because they did not have an impact on the financial statements. We statistically selected 1,211 property identification codes for review from the remaining universe of 32,571 structures.

From October 2003 to April 2004, we visited 43 field sites located in 18 USACE districts. We developed procedures to test USACE management assertions about the existence of buildings and other structures and related transactions reported in the FY 2003 USACE, Civil Works, Financial Statements. We compared what was recorded in CEFMS to physical observation and available documentation to determine whether structures:

- physically existed as of June 30, 2003,
- were properly classified as either a building (property category code 05) or other structure (property category code 10) in CEFMS,

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<sup>1</sup> The sample involved selecting projects at the first stage and properties within them at the second stage. This “with replacement” sampling design allowed properties to be selected more than once. We drew 60 first stage samples which involved 43 unique sites.

<sup>2</sup> USACE excluded assets that would later be removed to comply with the increased capitalization threshold.

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- were retired when they had impairment events or changes in circumstances that indicated that the book value of the structure might not be recoverable, and
  - were properly retired when they were not being used for their intended or another legitimate purpose.

**Use of Computer-Processed Data.** Although we relied on computer-processed data from CEFMS and the Real Estate Management Information System (REMIS), we did not evaluate the adequacy of the systems' general and application controls. Previous audits have identified general and application control weaknesses and questioned the reliability of the CEFMS data. We were able to reconcile the USACE trial balances as of June 30, 2003, and September 30, 2003, for the structures accounts within CEFMS by property identification code for the corresponding periods. We evaluated data reliability related to the sample items we reviewed by comparing information recorded in CEFMS with source documentation and physical observations at USACE district and field offices.

**Use of Technical Assistance.** We obtained assistance from the Operations Research Branch, Quantitative Methods Division in the DoD IG in determining a statistical sampling plan. Calculation of statistical projections will be reported in a subsequent report.

**Government Accountability Office (GAO) High-Risk Area.** The GAO has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management and Federal Real Property high-risk areas.

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## **Appendix B. Prior Coverage**

During the last 5 years, GAO and the DoD IG have issued several reports discussing the reporting of General PP&E on the USACE, Civil Works, financial statements. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

### **GAO**

GAO Report No. GAO-03-42, "Financial Management: Survey of Capitalization Threshold and Other Policies for Property, Plant, and Equipment," October 15, 2002

GAO Report No. GAO-02-589, "Information Security: Corps of Engineers Making Improvements, But Weaknesses Continue," June 10, 2002

GAO-01-89 Letter Report, "Financial Management: Significant Weaknesses in Corps of Engineers' Computer Controls," October 11, 2000

### **DoD IG**

DoD IG Report No. D-2004-063, "Controls Over U.S. Army Corps of Engineers Buildings and Other Structures," March 26, 2004

DoD IG Report No. D-2004-059, "Assets Depreciation Reported on the U.S. Army Corps of Engineers FY 2002 Financial Statements," March 16, 2004

DoD IG Report No. D-2004-032, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements," December 3, 2003

DoD IG Report No. D-2004-017, "Reliability of Construction-in-Progress in the U.S. Army Corps of Engineers, Civil Works, Financial Statements," November 7, 2003

DoD IG Report No. D-2003-123, "Corps of Engineers Equipment Reporting on Financial Statements for FY 2002," August 20, 2003

DoD IG Report No. D-2003-043, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2002 Principal Financial Statements," January 1, 2003

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## Appendix C. Glossary

**Accumulated Depreciation.** The amount of depreciation expense that has been added over a period of time and calculated from the placed-in-service date of the asset.

**Acquisition (Book) Cost.** Acquisition cost is the original purchase, construction, or development cost, net of (less) any purchase discounts. The cost of an asset includes all costs incurred to bring the asset to a form and location suitable for its intended use. It includes amounts paid to the prior owner or vendor, additional expenditures to place the asset in service (such as legal and recording fees, supervision and administration, engineer and design, interest during construction, labor, and transportation cost), or the fair market value of property acquired by transfer, trade-in, found on works, or donation.

**Book Value.** The book (acquisition) cost less accumulated depreciation charged on the asset.

**Capitalization Threshold.** The dollar value at which costs incurred will be added as capital expenditures to the Placed-in-Service accounts. All real property above the threshold, with an inherent useful life of 2 or more years, is capitalized.

**Feature.** A group of assets grouped to facilitate accounting control.

**Improvement.** A change to an existing asset that results in an increase of efficiency, durability, or capacity of the asset or a change in the asset's useful life.

**Placed-in-Service Date.** The date that an asset is physically complete and available for use. Assets are recognized when the title passes to the acquiring entity or when the asset is delivered to the entity or to an agent of the entity. It defines the start of the capitalization and depreciation expense process.

**Property Identification Code.** A number that links the REMIS database with CEFMS. The property identification code is system generated by REMIS when information about a new asset is entered in the system.

**Property Phase.** A stage in an asset's life cycle. An asset can be transferred from construction in progress to placed in service (S), retirement (R), to disposal (D) over the course of the asset's life.

**Straight Line.** A method of depreciation that allocates the book cost of an asset equally over the course of the asset's life.

**Useful Life.** The estimated time period for an asset to provide its intended service. The concept recognizes the deterioration of items as they age.



## Appendix D. Existence Discrepancies

Observations conducted at 43 field sites identified 164 structures that failed the existence testing. The following lists identify the problem found, the cause of the error, and the auditor determined misstatements in CEFMS as of June 30, 2003. An asterisk in the property identification code denotes a change from the draft report.

Table D-1 identifies the 65 property identification codes that failed the existence testing because of errors related to their physical existence. These property identification codes failed because the structures either no longer existed or were never constructed, or they represented unassigned costs capitalized as assets.

Table D-1. Physical Existence				
Cause	District	Property ID	Misstated Book Cost	Misstated Book Value
Unrecorded Disposal	Albuquerque	COCHIT-7045	\$ 45,000.00	\$ 19,800.00
Unrecorded Disposal		COCHIT-7046	45,000.00	19,800.00
Unrecorded Disposal		COCHIT-7047	45,000.00	19,800.00
Unrecorded Disposal	Fort Worth	CN-25979	63,341.14	41,171.73
Unrecorded Disposal		CN-25982	54,422.40	36,463.04
Unrecorded Disposal		CN- 27314	63,403.54	42,480.60
Unrecorded Disposal		RR-29065	121,070.14	111,608.26
Unrecorded Disposal	Kansas City	HST-29504	72,376.22	21,190.84
Unrecorded Disposal		HST-29726	60,825.65	37,705.11
Unrecorded Disposal		HST-29740	136,857.71	88,942.75
Unrecorded Disposal		HST-36989	27,778.53	21,180.38
Unrecorded Disposal		KNOPLS-28156	31,615.58	19,707.67
Unrecorded Disposal		PERRY-29405	30,144.88	7,429.32
Unrecorded Disposal		SMTHVL-30978	39,946.05	29,023.49
Unrecorded Disposal	Little Rock	GILHAM-44689	20,800.00	16,951.95
Unrecorded Disposal		NRFORK-49974	21,867.00	12,566.88
Unrecorded Disposal	Omaha	SHARP-20634	94,937.24	69,433.66
Unrecorded Disposal	Portland	BONNE-6303	9,429.16	5,419.52
Unrecorded Disposal		BONNE-7825	2,453.10	1,396.98
Unrecorded Disposal		BONNE-9963	850,000.00	344,679.72
Unrecorded Disposal		BONNE-9696	5,281,763.00	1,872,689.38
Unrecorded Disposal		LOSTC-7197	15,360.00	11,749.28
Unrecorded Disposal	St. Louis	BB151-6870	283,997,725.00	231,457,681.04
Unrecorded Disposal		BB151-6899	1,732,580.08	1,412,049.96
Unrecorded Disposal		BB151-9116	650,522.00	409,823.66
Unrecorded Disposal	Walla Walla	GRANT-4586	810.00	434.70
Unrecorded Disposal		GRANT-4872	207.00	144.21
Unrecorded Disposal		IHRBR-4250	3,222.28	2,311.98
Unrecorded Disposal		IHRBR-4274	3,222.28	2,311.98
Unrecorded Disposal		IHRBR-4300	2,171.35	1,617.65

Table D-1. Physical Existence (cont'd)				
Cause	District	Property ID	Misstated Book Cost	Misstated Book Value
Unrecorded Disposal		IHRBR-5474	930.00	692.85
Unrecorded Disposal		LOMO-3851	74,607.52	31,956.88
Unrecorded Disposal		LOMO-3934	3,560.00	2,435.63
<b>Total Unrecorded Disposals</b>		<b>33</b>	<b>\$293,602,948.85</b>	<b>\$236,172,651.10</b>
Duplicate	Albuquerque	COCHIT-6153	\$ 816,410.54	\$ 558,495.95
Duplicate	Fort Worth	RR-29056	540,652.86	498,399.78
Duplicate		RR-29108	125,779.79	104,215.90
Duplicate		RR-29114	125,779.79	104,215.90
Duplicate	Kansas City	HST-31563	10,188.30	8,354.13
Duplicate		HST-31572	6,082.57	4,987.58
Duplicate		LNGVW-28471	82,207.21	37,230.81
Duplicate	Little Rock	ARLD13-48781*	82,382.18	37,071.05
Duplicate	Vicksburg	L&D02-14892	48,379.48	44,105.74
Never Constructed	Fort Worth	CO-38972	77,757.00	66,741.42
Never Constructed		CO-39077	97,569.86	90,496.03
Never Constructed	Kansas City	LNGVW-28414	64,516.65	44,294.84
Never Constructed		LNGVW-30823	2,025,806.30	1,677,994.74
Never Constructed	Portland	BONNE-6310	255.00	180.78
Never Constructed		BONNE-9658	132,964.18	80,415.40
Never Constructed		BONNE-10543	171,218.93	100,941.98
Never Constructed		BONNE-10593	516,964.96	304,776.06
Never Constructed		LOSTC-9735	2,000.00	1,179.09
Never Constructed		LOSTC-9736	2,000.00	1,179.09
Never Constructed	St. Louis	BB151-6885	27,360.00	17,236.57
Never Constructed	Seattle	LBDLKO-16353*	400,000.00	282,437.96
Never Constructed		LBDLKO-16357*	40,000.00	28,243.77
<b>Total Duplicate and Never Constructed</b>		<b>22</b>	<b>\$5,396,275.60</b>	<b>\$4,093,194.57</b>
Unassigned Costs	Little Rock	NRFORK-50250	\$ 1,676,075.81	\$ 911,436.45
Unassigned Costs	Mobile	TTDIVI-27800	652,139.10	558,665.83
Unassigned Costs	Savannah	RBR-18640	2,729,364.79	2,664,202.34
Unassigned Costs	Vicksburg	L&D01-11482	35,939.61	33,453.72
Unassigned Costs		L&D01-11498	27,536.62	23,727.33
Unassigned Costs		L&D01-17358	1,554,663.09	1,496,361.09
Unassigned Costs		L&D01-18770	2,395,461.26	2,353,538.97
Unassigned Costs		L&D02-11467	54,935,860.73	18,536,677.90
Unassigned Costs		L&D02-11469	199,131.50	174,239.83
Unassigned Costs	Walla Walla	LOMO-5636	707,006.85	468,392.04
<b>Total Unassigned Costs</b>		<b>10</b>	<b>\$ 64,913,179.36</b>	<b>\$ 27,220,695.50</b>
<b>Total Physical Existence</b>		<b>65</b>	<b>\$363,912,403.81</b>	<b>\$267,486,541.17</b>

Table D-2 identifies the 71 property identification codes that failed the existence testing because of errors related to their classification. These property identification codes failed because they should have been classified as construction in progress, equipment, land and improvements to land, or stewardship assets.

Table D-2. Classification Test				
Cause	District	Property ID	Misstated Book Cost	Misstated Book Value
Construction in Progress	Seattle	LBDLKO-16308	\$1,212,893.94	\$ 856,418.20
Construction in Progress		LBDLKO-16311	3,000,000.00	2,118,284.60
Construction in Progress		LBDLKO-16324	18,000.00	12,709.71
Construction in Progress		LBDLKO-16340	30,000.00	18,991.89
Construction in Progress		LBDLKO-16344	500,000.00	353,047.44
Construction in Progress		LBDLKO-16379	40,000.00	23,241.73
Construction in Progress	Walla Walla	LOMO-6841	53,231.00	53,053.56
Construction in Progress		LOMO-6842*	46,530.25	46,375.15
<b>Total Construction in Progress Assets</b>		<b>8</b>	<b>\$4,900,655.19</b>	<b>\$3,482,122.28</b>
Equipment	Kansas City	HST-29594	\$ 6,277.21	\$ 749.07
Equipment		HST-29625	6,277.21	749.07
Equipment		HST-29738	6,277.21	1,879.70
Equipment		HST-29753	6,277.21	749.07
Equipment	Omaha	SHARP-22884	187,538.02	127,670.56
<b>Total Equipment Assets</b>		<b>5</b>	<b>\$212,646.86</b>	<b>\$131,797.47</b>
Land Improvements	Fort Worth	CO-32073*	\$ 1,536,876.33	\$ 1,430,575.72
Land Improvements		RR-29123	507,727.22	427,337.04
Land Improvements	Huntington	KAORDB-23655	104,462.01	57,452.81
Land Improvements	Kansas City	MORIVR-37013	2,854,507.51	1,155,947.52
Land Improvements	Little Rock	NRFORK-45164	19,242.13	18,408.25
Land Improvements	Mobile	TTWILD-27604*	7,217,258.14	6,127,461.49
Land Improvements	Portland	LOSTC-8763*	5,868,766.33	2,754,720.38
Land Improvements	St. Louis	CB562-7116	203,759.00	99,839.92
Land Improvements	Savannah	RBR-16915	453,155.82	412,670.77
Land Improvements	Walla Walla	MILLC-3807	43,932.11	26,103.00
Land Improvements		MILLC-3835*	249,975.96	226,228.25
Land Improvements	Wilmington	FAL-15886	3,469,405.00	3,105,114.84
Land Improvements		FAL-18493	10,090,286.70	7,012,739.60
Land Improvements		FAL-18749	5,496,398.00	4,534,523.84
Land Improvements		FAL-19328	4,564,730.00	3,514,826.79
<b>Total Land Improvements</b>		<b>15</b>	<b>\$42,680,482.2</b>	<b>\$30,903,950.22</b>

Table D-2. Classification Test (cont'd)				
Cause	District	Property ID	Misstated Book Cost	Misstated Book Value
Reservoirs	Fort Worth	CO-29178	\$ 9,630,788.13	\$ 8,547,324.44
Reservoirs		RR-29121	9,692,104.45	8,178,581.72
Reservoirs	Huntington	BSAYBC-24350	1,811,850.11	1,271,295.80
Reservoirs		KAORDB-24341	749,087.85	526,850.54
Reservoirs		KAORDB-50397	231,127.24	229,151.80
Reservoirs	Kansas City	HST-36988	20,714,613.76	15,794,359.81
Reservoirs		KNOPLS-36958	206,632.60	86,604.43
Reservoirs		LNGVW-36979	1,596,549.57	1,303,810.20
Reservoirs		PERRY-36968	643,408.04	382,807.09
Reservoirs		SHARP-22947	4,042,954.62	2,752,332.03
Reservoirs		SMTHVL-36973	2,657,562.38	2,037,396.52
Reservoirs	Mobile	TTCANA-27775	6,005,693.44	5,575,285.41
Reservoirs	Nashville	JPP-16454	2,149,078.75	986,746.03
Reservoirs	Pittsburgh	YOUGH-16548	403,000.00	343,219.24
Reservoirs	Portland	LOSTC-9611	5,512,805.81	3,638,398.31
Reservoirs	St. Louis	BB151-9091	1,383,908.00	1,127,882.81
Reservoirs	Savannah	RBR-18103	21,659,345.58	21,192,878.51
Reservoirs		RBR-26228	997,226.05	988,904.55
Reservoirs	Seattle	LBDLKO-16037	10,381,235.02	8,022,220.45
Reservoirs	Tulsa	ARCADI-44911	2,475,934.88	2,092,323.34
Reservoirs		GRSALT-43883	39,670.53	19,319.04
Reservoirs	Vicksburg	L&D01-19265	2,922,730.09	2,917,858.87
<b>total Reservoirs</b>		<b>22</b>	<b>\$105,907,306.90</b>	<b>\$88,015,550.94</b>
<b>total Land Assets</b>		<b>37</b>	<b>\$148,680,482.26</b>	<b>\$118,919,501.16</b>
Stewardship Assets	Huntington	ORLRCB-23583	\$8,294,470.28	\$5,709,271.36
Stewardship Assets		ORLRCB-23584*	1,272,392.59	875,816.77
Stewardship Assets		MORIVR-37018	234,923,627.30	95,133,532.46
Stewardship Assets	Little Rock	AR/LD2-55422	981,669.31	935,037.16
Stewardship Assets	Savannah	RBR-17287	2,500.00	1,878.22
Stewardship Assets		RBR-17291	5,000.00	3,756.53
Stewardship Assets	St. Louis	BB151-6905	6,148,958.00	5,040,730.65
Stewardship Assets	Vicksburg	L&D01-10353	100,761,916.66	81,113,342.93
Stewardship Assets		L&D01-18791	2,009,352.87	1,974,187.81
Stewardship Assets		L&D01-18792	1,629,593.11	1,601,074.18
Stewardship Assets		L&D01-19062	498,121.19	494,385.29
Stewardship Assets		L&D02-8514	236,180.79	219,450.90

Table D-2. Classification Test (cont'd)				
Cause	District	Property ID	Misstated Book Cost	Misstated Book Value
Stewardship Assets		L&D02-11468	1,105,603.31	1,042,029.59
Stewardship Assets		L&D02-18980	2,336,406.91	2,313,042.79
Stewardship Assets		L&D02-18981	1,299,085.65	1,286,094.81
Stewardship Assets		L&D02-19060	3,666,572.15	3,639,072.83
Stewardship Assets	Walla Walla	GRANT-5352	12,000.00	8,620.00
Stewardship Assets		GRANT-5355	4,500.00	3,217.50
Stewardship Assets		LOMO-3918	17,141.40	12,527.51
Stewardship Assets		IHRBR-4160	29,723.58	21,475.29
Stewardship Assets		MILLC-3831	1,800,870.30	733,854.64
<b>Total Stewardship Assets</b>		<b>21</b>	<b>\$367,035,685.40</b>	<b>\$202,162,399.22</b>
<b>Total Classification</b>		<b>71</b>	<b>\$520,736,776.61</b>	<b>\$324,695,820.13</b>

Table D-3 identifies the 12 property identification codes that failed the existence testing because of physical impairments to the assets.

Table D-3. Impairment Test				
Cause	District	Property ID	Book Cost Misstated	Book Value Misstated
Impairments	Albuquerque	COCHIT-6154	\$233,999.97	\$177,399.98
Impairments	Fort Worth	CO-38924	8,783.30	7,735.07
Impairments		CN-27138	49,808.32	30,632.09
Impairments		CN-27144	49,808.32	30,632.09
Impairments		CN-27315	84,928.71	53,505.07
Impairments	Kansas City	HST-29762	16,727.15	10,647.84
Impairments		HST-31551	8,758.89	6,897.37
Impairments	Little Rock	ARLD13-43029	25,562.68	18,532.91
Impairments	St. Louis	CB562-7174	8,247.79	6,144.60
Impairments	Tulsa	HUGO-43815	77,996.92	35,098.62
Impairments		HUGO-43856	28,299.96	12,734.98
Impairments	Walla Walla	IHRBR-4301*	10,414.26	5,884.05
<b>Total Impairments</b>		<b>12</b>	<b>\$603,336.27</b>	<b>\$395,884.67</b>

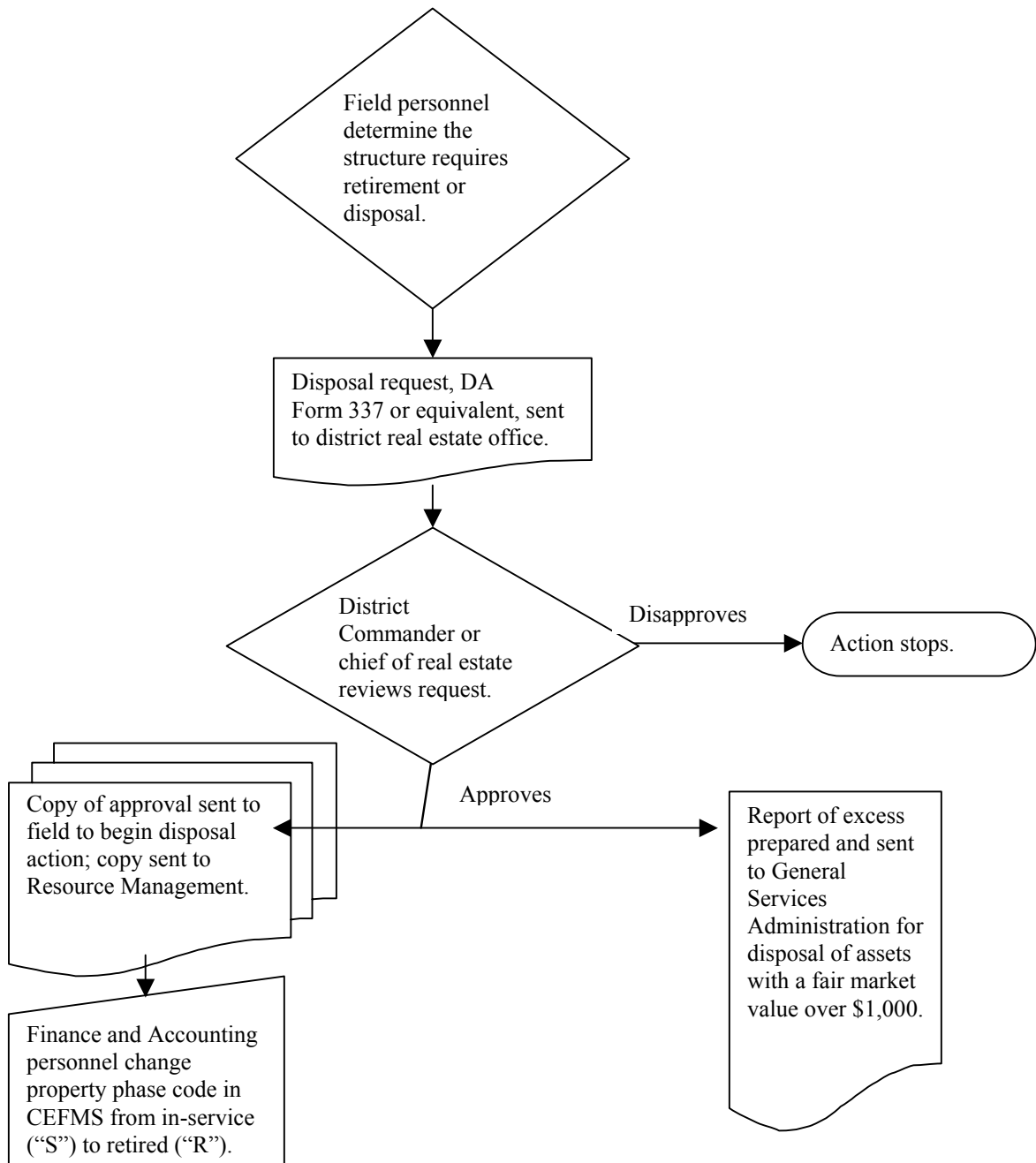
Table D-4 identifies the 16 property identification codes that failed the existence testing because the structures were not being used for their intended or another legitimate purpose.

<b>Table D-4. Usefulness Test</b>				
<b>Cause</b>	<b>District</b>	<b>Property ID</b>	<b>Book Cost Misstated</b>	<b>Book Value Misstated</b>
Not In Use	Fort Worth	RR-26261	\$ 31,330.91	\$ 26,416.26
Not In Use		RR-29078	43,863.27	40,435.26
Not In Use		RR-29089	250,674.08	227,448.91
Not In Use	Huntington	KAORDB-23613	31,338.60	24,130.45
Not In Use	Kansas City	HST-29705	50,716.42	14,172.47
Not In Use		PERRY-29448	48,219.93	11,481.97
Not In Use	Little Rock	AR/LD2-42606	70,040.51	62,686.12
Not In Use		GILHAM-44694	82,262.59	55,663.75
Not In Use		GILHAM-44701	45,371.35	31,835.21
Not In Use		GILHAM-44707	80,011.83	21,601.76
Not In Use	Portland	LOSTC-7221	8,000.00	4,716.42
Not In Use		LOSTC-8086	46,178.70	35,546.68
Not In Use	Savannah	RBR-17301	1,063,636.49	962,879.11
Not In Use		RBR-17617	3,208.90	2,956.97
Not In Use	Tulsa	HUGO-43824	38,708.15	17,418.67
Not In Use		HUGO-43826	1,048,840.64	760,409.46
<b>Total Not in Use</b>		<b>16</b>	<b>\$2,942,402.37</b>	<b>\$2,299,799.47</b>

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## Appendix E. Retirement Cycle of Structures

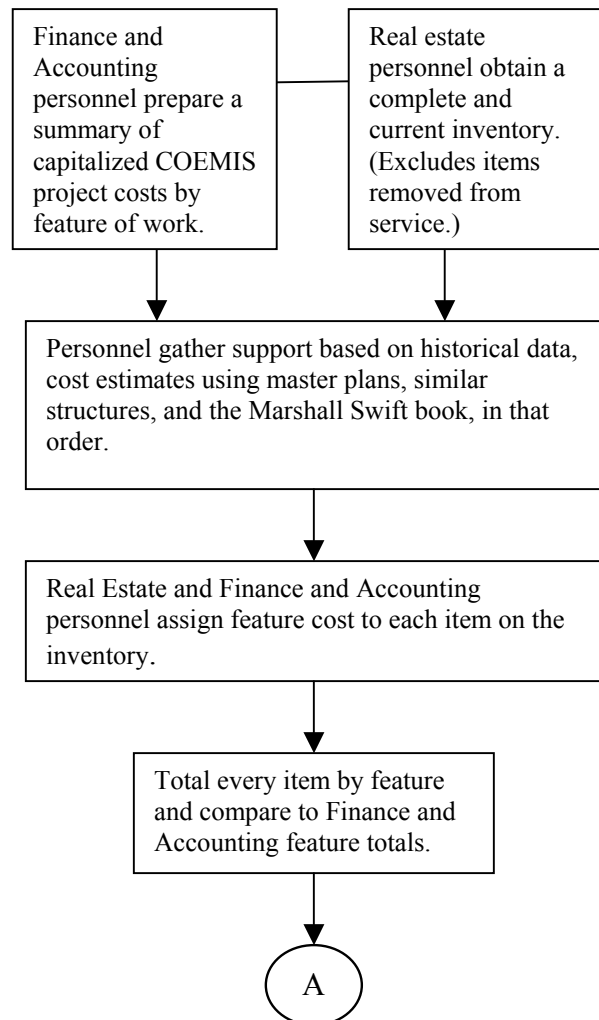
Engineer Regulation 405-1-12, “Real Estate Handbook,” chapter 11, “Disposal,” November 1985, provides authority, responsibility, methods, and guidance for the performance of real property disposal functions. The steps to retire and dispose of a structure are displayed in the following flowchart.



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## Appendix F. COEMIS to CEFMS Conversion Process

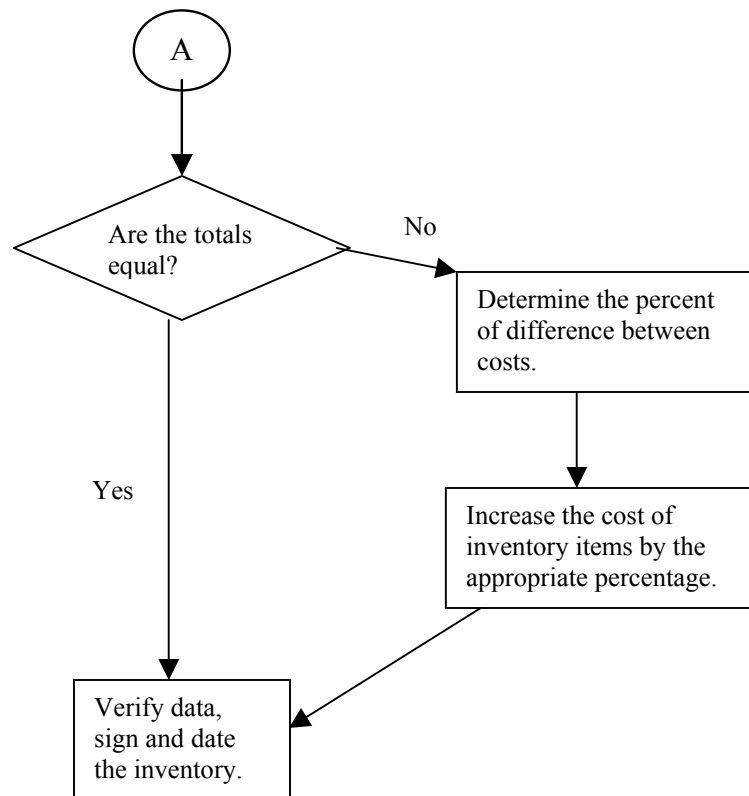
USACE districts converted the financial records from COEMIS to CEFMS from 1994 to 1998. COEMIS tracked costs by feature codes such as land, dam, and recreational facilities. When USACE implemented CEFMS, the records were detailed to the individual structures. To enter existing costs into CEFMS, districts personnel allocated COEMIS costs to specific structures. USACE headquarters issued two memoranda “Procedure for Reconciling Real Property Inventory With Accounting General Ledgers and Cost Records for Civil Works Projects,” May 9, 1994, and “Procedures for Work Group Reconciliation of Real Property Inventory to Finance and Accounting Records,” June 30, 1994, to assist districts in the reconciliation process. The following chart displays this process.





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## Appendix F. COEMIS to CEFMS Conversion Process (cont'd)



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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Civil Works)  
Commander, U.S. Army Corps of Engineers  
Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Subcommittee on Energy and Water Development, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Committee on Energy and Natural Resources  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Subcommittee on Energy and Water Development, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Energy and Natural Resources  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# U.S. Army Corps of Engineers Comments

Final Report  
Reference



DEPARTMENT OF THE ARMY  
U.S. ARMY CORPS OF ENGINEERS  
441 G ST. NW  
WASHINGTON, D.C. 20314-1000

CEIR (36-2b)

3 November 2004

MEMORANDUM FOR Director, Defense Financial Auditing Service, Inspector General  
Department of Defense. 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Draft Report on the Independent Examination of the Existence of U.S. Army  
Corps of Engineers Buildings and Other Structures.  
(Project No. D2004FI-0037)

1. The USACE response to each Department of Defense Inspector General (DoDIG) report  
recommendations follows:

**2. Finding – We recommend that the Chief of Engineers, U.S. Army Corps of  
Engineers:**

Take immediate actions to resolve the 161 existence errors identified in Appendix D,  
including a reassessment of the conversion process at sites that assigned costs to  
nonexistent assets at the time of conversion to the Corps of Engineers Financial  
Management System.

**Concur:**

Headquarters U.S. Army Corps of Engineers has developed an Information Paper to ensure  
all corrective actions pertaining to Buildings and Other Structures are addressed. The  
Information Paper was reviewed by DODIG. Corps-wide corrections of the existence errors  
are being made. The expected completion date is December 15, 2004.

**Additional Comments:** Currently, USACE does not report Stewardship Land since all land  
purchased by USACE has been determined to meet the definition in Statement of Federal  
Financial Accounting Standards No. 8 Chapter 4 as being reportable as general Property,  
Plant & Equipment. "Stewardship Land – Land not acquired for or in connection with [FN22-  
"Acquired for or in connection with" is defined as including land acquired with the intent to  
construct general PP&E and land acquired in combination with general PP&E, including not  
only land used as the foundation, but also adjacent land considered to be the general  
PP&E's common grounds."] Therefore, since the Corps does not have any Stewardship Land  
– USACE will transfer the wildlife improvements to GLAC 1712 land improvements.

Take actions to expense all bank stabilization assets from the buildings and other structures  
accounts within the Corps of Engineers Financial Management System.

**Concur:**

Headquarters U.S. Army Corps of Engineers has developed an Information Paper to ensure  
all corrective actions above are addressed. This information paper was reviewed by DODIG  
and Corps Districts have already begun taking corrective actions. The expected completion  
date is 15, December 2004.

Direct and document a one-time physical inventory of all property identification codes  
classified as buildings and other structures. Specifically, ensure that:

Revised  
Pages 2, 5,  
11, and 18

Revised  
Pages 8, 9,  
and 20

CEIR (36-2b)

3 November 2004

SUBJECT: Draft Report on the Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures.  
(Project No. D2004FI-0037)

A tangible asset exists in a condition consistent with supporting documentation and is properly classified to the correct general ledger accounts (for example, building, structure, land, equipment).  
Property identification codes determined to be physically impaired or no longer in use are retired from the Corps of Engineers Financial Management System.

**Concur:**

Headquarters U.S. Army Corps of Engineers has developed an Information Paper to ensure all corrective actions above are addressed. Furthermore, this information was coordinated and reviewed by DODIG and Corps-wide implementation of the corrective actions is being performed. The estimate target date of completion is December 15, 2004.

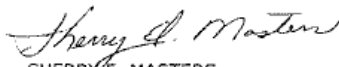
Determine whether the new Engineer Circular 405-1-2, provides detailed policy guidance to eliminate the existence errors identified in this report. If not, incorporate changes to the final Engineer Regulation 405-1-2, chapter 16. Once final policies are implemented, provide training to district personnel and ensure that the policies are implemented consistently by all U.S. Army Corps of Engineer Districts.

**Concur:**

Headquarters U.S. Army Corps of Engineers will review Engineer Circular 405-1-2 to ensure the policy guidance is provided to eliminate the existence errors identified. USACE will incorporate any changes to the Engineer Circular into the Corps Finance and Accounting System Training. The estimated completion date is December 15, 2004

5. The POC for this response is Bill Holtzman (202) 761-1938 or Dora Wilson (202) 761-1926.

FOR THE COMMANDER:

  
SHERRY E. MASTERS  
Acting Chief, Audit Executive  
U.S. Army Corps of Engineers

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